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Speaker 1

Welcome. My name is Andrew Baron, and this is, Well... It Depends! The podcast where I present the pros and cons of financial decisions so that you, the audience, feel better informed when you are confronted with these decisions in your own life. In this episode, I ask the question, is a strong dollar good or bad?

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Speaker 1

Getting into it is a strong dollar, good or bad? Reports about a strengthening dollar or a strong dollar have been making their cycle. But what does that mean? When economists and financial advisors talk about how strong or weak a dollar is, they are comparing the purchasing power of the US dollar relative to other currencies during times of volatility. This may simply translate to a trading opportunity, but because the dollar's strength has persisted, other effects are playing out.

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The first example that comes to mind are emerging markets. These are less developed countries that rely on developed nations for a lot of support. They come to mind because the countries primarily price their debt in U.S. dollars as the dollar gets stronger compared to these countries local currencies, their debt becomes more difficult to manage. We can also look to Europe considering the global environment with Europe shut off from Russian energy, they're forced to buy it from the U.S., which again is priced in U.S. dollars.

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Europe is also suffering from a bad inflation problem. This builds as Europe needs more of their currency to redeem for U.S. dollars, which adds to demand for more dollars, strengthening it further. A concern here is that to get a grip on inflation, Europe will be forced to reduce demand by raising rates, which their economy may not be able to handle without dipping into a recession.

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Speaker 1

Okay, so that's the rest of the world, but how does that affect us at home? A stronger dollar means that traveling to foreign countries is relative bargain. This means that vacations and other goods and services from other countries are cheaper for Americans because their dollars are buying more of that local currency and can therefore buy more of everything else.

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However, many U.S. corporations have international customers. These companies are having their earnings negatively impacted because their foreign customers are able to buy less than they were before. Bad earnings could spell layoffs for American workers in anticipation of the negative effects. Other assets, like stocks, may fall in value as investors expect to be able to repurchase these in the future at a lower cost.

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Speaker 1

And if everyone sells their assets for dollars, this adds to the demand and keeps the dollar strong. While you might think of the dollar as an isolated asset class, the overall effects can spill out through the global system. So to answer the question, is a strong dollar good or bad? Well... It Depends!